

## I. COMMUNITY READINESS

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### HOUSING?

There are 127 incorporated cities and towns in Montana. According to the 1990 Census, only 13 of those communities contain a population of over 5,000, leaving 114 small towns that contain a large segment of Montana's housing units.

The households in Montana's small towns increasingly comprise older persons on fixed incomes, single parent households, and lower income young families earning minimum wage. These households are being severely impacted by the housing shortage, escalating property values and increased rents. Property owners cannot afford the cost of housing improvements at conventional rates since their earnings are not increasing proportionately. The housing stock in small towns continues to deteriorate.

Yet any hope for economic development or attracting job-creating businesses depends on the ability of a community to provide basic services, including safe and decent housing. Therefore, although housing is almost exclusively under private ownership in small towns, it is an essential element in the very existence of the community. The local government has a responsibility to safeguard housing stock as it does its water, sewer and solid waste facilities.

In most small Montana communities, the logical leader, indeed the only organization qualified or able to undertake housing rehabilitation, is the local government. If the city or town council doesn't do it, it probably won't happen.

Housing rehabilitation can appear to be a daunting task for a very small community with part-time city employees and a volunteer mayor and council. Yet, all over Montana, small towns are making strides in revitalization, including comprehensive housing development and rehabilitation, and demolition and removal of dilapidated structures. These activities have been undertaken in Montana communities since the late 1970's, and their experience can provide a support network for other towns considering such new programs. State government offers a broad array of expert help and reference materials that are available to help any small community undertake a community improvement program.

## B. COMMITMENT: HOW LONG WILL IT TAKE TO COMPLETE OUR PROGRAM?

A housing rehabilitation program, properly undertaken, can and should take from two to eight years in towns under 5,000 population. Such a community can contain from less than 200 to 3,000 housing units. Recent local surveys in diverse Montana communities have indicated that more than 50% to 60% of Montana's small town housing stock could be classed as substandard, with more than 20% in seriously substandard condition. Therefore, a small community might contain from 100 to 1,500 housing units in need of repair. Even if only half of those units were occupied by low and very low income families who qualify for public programs, a comprehensive housing improvement project undertaken by the city government could be needed for years. Housing rehabilitation is usually accomplished by identifying and rehabilitating one neighborhood at a time, a technique called "targeting" (explained further in Part III, Project Design.)

A program as described can succeed only with careful and thorough planning and preparation. A thorough public relations and information program should be carried on continuously throughout the entire program, from planning to closeout, to help ensure support for the program, the city officials, and the staff performing day-to-day implementation of the rehab activities.

## C. COMMUNITY CAPACITY: CAN WE DO THIS OURSELVES?

It is very important that the city officials understand the kinds of skills, services and activities that will be required for planning and carrying out a successful housing rehab program. Local officials must realistically assess the skills, capabilities and availability of local personnel to design and manage a housing program. **Serious problems can develop when local officials underestimate the complexity of their program and demands of the funding agencies.**

A key consideration to assure the long-term success of the program is whether a long term project leader is available in the community, or if the city should contract with a housing professional for the duration of the program. The city officials need to recognize that a long-term commitment is necessary for the program to be completed satisfactorily. Housing rehabilitation using public funds requires full-time staff work. Consequently, it is virtually impossible for an existing staff person to administer the new housing program in addition to that person's regular job assignment. Because of conflict of interest prohibitions, a member of the city council is not allowed to administer the program for compensation.

Most successful programs in small Montana communities have been designed and initiated by experienced housing professionals. Usually, members of the community participate in the process, as city employees and advisory committee members. These local participants can

become proficient in administration to the extent that they can assume the responsibilities and continue the program without ongoing professional assistance.

Once the program requirements become familiar, and local goals, objectives, guidelines and limitations are established, successful program management is a matter of complying with local, state and federal regulations.

#### D. MARKET: WILL THIS PROGRAM SELL IN OUR COMMUNITY?

A most important question is: Will the households in the neighborhood use the program? Home improvements require an affirmative decision by the property owner to reinvest in their homes. Even if the financing is "free" - by virtue of a grant or deferred payment loan- the decision to participate is still very individual. Property owners may refuse assistance for a number of reasons:

1. Independence or pride of homeowners. Many of the prospective beneficiaries of housing improvements in small towns are middle aged or elderly households who view government sponsored programs as a type of "welfare", and they feel stigmatized by being eligible for the benefits. Tact and diplomacy are needed to encourage them to use funds for which they are eligible.
2. Resistance to debt. Many homeowners whose homes are free of mortgages feel threatened by the prospect of incurring debt on "the roof over my head." Even the reasoning that they are increasing the value of the asset often is ignored. Usually, the assurance that they won't be turned out to the street is effective.
3. General mistrust of government: Mistrust can range from the local council to the federal government. Households with this problem may participate later in the program, after the ice is broken by braver souls.

When assessing the community's capability of undertaking the program, the issue of marketing should be carefully considered. **The program will need to be aggressively marketed.** Continual advertising about the housing program and its benefits should be published in the local newspaper. The program manager should meet periodically with senior citizens and organizations serving low income households to explain the program and seek participants. Some program managers have even gone door-to-door in the project area, explaining the program one-on-one with eligible homeowners.

## II. ASSESSMENT: What do we do first?

All federal funding sources require some kind of assessment of community needs, development of priorities, and preparation of a plan of action as a prerequisite to receiving federal funds. A community should analyze the condition of all its public facilities, housing, and economic development needs, in order to make a comprehensive assessment of its needs and set priorities for action. For example, a street resurfacing program should be postponed if the sewer main in that street is scheduled for replacement within the next three years. And a housing rehabilitation program probably won't succeed if vacancy rates are approaching 20%, or if summer homes comprise a significant share of housing stock, since owners of vacant units will have little incentive to participate, and seasonal housing does not qualify for rehabilitation assistance.

The needs of a community are ever-changing. Residents are born, die, move, and age. Policies and programs that were once appropriate may no longer serve the needs of the people. The demands of a rapidly growing community, or a declining population and tax base, can seem overwhelming to a small Montana town government with limited resources. A Community Needs Assessment can help the local government identify, quantify, and prioritize the current needs of a community, and establish an orderly plan for addressing those needs.



The Needs Assessment is the foundation upon which further community planning can be developed. The quality of the process and the information that it generates is vital in helping a community compete for grant funds. The new federal requirements for HUD projects place increasing emphasis on comprehensive needs assessment to assist federal and state agencies in planning for future funding levels.

A Housing Assessment and Plan is an extension of a community's Needs Assessment that examines in depth the housing needs, availability, condition, cost, and the demographics of the households.

Any community intending to compete for federal funds for housing improvement should be prepared to conduct both a comprehensive assessment of overall community needs, (including public facilities, and economic development needs), and a housing assessment that examines all housing needs, (including new construction of affordable housing, new rental units, rehabilitation of owner-occupied and rental units, and financial assistance to lower income home buyers and renters). From these studies, plans to address the needs can be developed.

A step by step description and samples of Community Needs Assessments and Housing Surveys and Plans are included in Appendix A and B.





### III. PROJECT DESIGN. How much can we reasonably hope to accomplish?

Virtually all of the rehabilitation programs funded with CDBG, and most funded with HOME and HPG funds in the past 10 years have used a technique called "targeting". This involves identifying areas of the community in need of revitalization, including housing rehabilitation, and addressing those areas in priority order, based on condition of the housing and demographics of the residents. Theoretically, concentrating activities in a confined neighborhood will produce a higher visual impact that could produce spin-off benefits, such as encouraging other households to improve their residential or business properties, or encouraging new business investment or neighborhood pride that will prevent further or repeated deterioration. In practice, such spin-off in small towns is limited, and setting up boundaries along block lines can create local political problems. At this time, however, targeting for neighborhood revitalization is the most effective method to successfully compete for CDBG grants. It also allows the local government to complete a comprehensive program of rehabilitation in phases, using income from the first program in subsequent areas to help leverage further funding.



#### A. HOW MANY UNITS SHOULD WE TRY TO REHABILITATE?

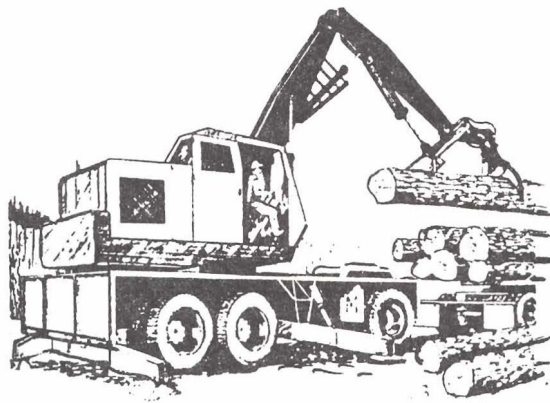
In choosing a project area and scope of rehabilitation activities, a local government or nonprofit should take into account a number of factors. The most important factor is analysis of the information on housing conditions produced by the Needs Assessment and Housing Plan (described in Part II.) For example, if the area of town identified as the most deteriorated contains a high number of rental units occupied by lower income households, then the proposed project should probably focus on rental housing. This might indicate that "leveraged" bank funds could be used, which would probably result in rehabilitating more units. This assumes fair market rents and cash flow would produce the ability to make payments on a low interest bank loan. On the other hand, if the area contains a significant number of lower income homeowners with no repayment ability, more outright grant funds might be used, and would probably require more CDBG (or HOME, HPG) assistance (and fewer bank funds) per unit, resulting in fewer rehabilitated units. This shows the need for solid demographic and ownership data from the proposed area. For explanation of "leverage" see pages 11, 16, and 19.

Another factor that could affect project area boundaries is housing density. If the project area has a high concentration of multifamily housing units, or zoning laws have allowed very small lots, a few blocks could contain several hundred housing units. Most federal funding agencies allow no more than 24 months to complete a grant funded project, so it is advisable to define a project area that contains sufficient units to assure a market for the funds. However, the area should not be so large that the rehabilitation activities show no visible impact. **To establish project boundaries, it is vital to survey property owners in the proposed project area to assure that an adequate number will actually participate in the program.**

### 1. Estimating the Total Cost Per Unit:

A very important factor in choosing a project area and determining an expected number of rehab units is the calculating the total cost per housing unit for the rehabilitation activities. Cost per unit is then compared with the level of funding that can reasonably be anticipated to calculate the scope of the project. Many factors will affect the cost per unit, including:

- a. The availability of local contractors and supplies. Many isolated small Montana communities do not have a building supply outlet, nor do they have local building contractors. Consequently, all services and supplies will have to be brought in, sometimes from considerable distances. This will increase costs significantly. Also, a building boom taking place in a community may tie up all available contractors for months or even years. A recent survey of building suppliers and plumbing contractors in the Bozeman area by a community development agency revealed quotes varying from 10% to 300% (of the lowest quote), depending upon the workload and location of the contractor or suppliers. A community must carefully assess the availability and cost of contractors and supplies (including the plumbers and electricians!) **Note: The recent dramatic increases in lumber prices have had only a moderate effect on cost per unit, because lumber, especially in rehabilitation, represents only a nominal portion of construction costs, compared to wiring, plumbing, windows, heating systems, and labor.**



Condition of the housing in the project area: The "windshield survey" is widely used to determine the degree of deterioration of housing units. The survey is conducted by examining exterior features of the units, like windows, electrical entrances, siding and foundations. This information is helpful, but this type of survey will not reveal problems with basic systems like heating and plumbing. New heating, plumbing and wiring systems can cost \$5,000 or more per system. In some communities water and sewer service lines to older homes need replacing. These are usually considered the responsibility of the homeowner, not the city. Backhoe and plumbing service to replace these could be costly, if it is needed. Apartments and other multifamily structures that use common systems usually cost less per unit, but one large structure containing many rental units could absorb a significant proportion of project funds. A realistic assessment of property owners in the project area should be done, to better anticipate exactly who will apply and what their projects can be expected to cost.



- c. Level of Rehabilitation to be accomplished: The program designers need to weigh the community's long term and short term objectives and decide what is most important to accomplish first. To effectively revitalize a neighborhood, a visible impact on deteriorated housing is required, meaning that exterior paint, siding, roofs, and grounds are improved. However, this might be a "band-aid", a temporary visual improvement that covers up more serious problems. On the other hand, spending the funds on heating, wiring, and plumbing would improve living conditions for occupants but would not improve the neighborhood's appearance, unless the maximum cost per unit is increased by the program to allow for the external cosmetic repairs. Again, this demonstrates the importance of fully assessing the condition and needs of the housing units to be rehabilitated and the objectives of the program. **If federal funding is essential to your program, it is wise to assess the types of proposals that are receiving funding awards, and conform to the current trends when setting goals and objectives. In any case, HUD Section 8 rehabilitation standards (available from DOC) must be achieved for any unit improved .**

Reviewing the closeout reports of CDBG housing rehabilitation projects completed by similar Montana communities (available from the Montana Department of Commerce) will help to anticipate cost per unit, since it demonstrates past experience of other programs.



Probably the best way to determine local construction costs is to interview local contractors and suppliers. Allowance should be made for possible cost increases during the two year duration of the planned rehabilitation program. A very general rule of thumb is that the rehabilitation of apartment units will cost approximately half of the cost of single family units requiring the same rehabilitation, since multifamily units share some of the more costly systems, like heating, wiring and plumbing.

## 2. Estimating CDBG/HOME Cost Per Unit:

The second factor to consider, along with total cost per unit, is the portion of the cost per unit to be paid with public funds. In a highly leveraged program, it is possible to reduce the amount of limited public dollars spent on any one unit by "mixing and matching" funds. The most common way to accomplish this is by entering into an agreement with the local bank to use grant funds to pay part of the interest or principal of a loan up front. This produces a lower than conventional (and therefore more affordable) rate or payment to the borrower, and produces at least \$3 of construction funds for each \$1 of CDBG funds. **Note: There will be no provision for the additional administrative expense of completing three times as many units, yet these units must meet the same standards as the rest of the project. The added cost of administration must be factored in when developing the budget.**



The concept of interest subsidy and other bank leveraged funds is controversial among Montana housing practitioners. Some feel that a more beneficial effect can be achieved by offering low interest loans to the homeowners directly from the City, and revolving the payments (program income) into more loans to complete the additional units. Obviously, this would be a much longer process, since with small, long term payments, the funds accumulate slowly, and only one or two units per

year could be completed. Other communities feel that it is more effective to complete the maximum units in an area as quickly as possible by using the CDBG funds to "leverage" as much bank financing as possible. They would then move on to the next phase of the city-wide project. Should a community choose to make direct loans from the city, on-going administration of the program income after the program is completed is another serious consideration in small towns. Many do not want the long term burden of compliance and reporting of program income from loans. (See Appendix E, and the DOC publication on the management of CDBG and HOME program income.) More discussion on leveraged bank funds is on Pages 6, 11, 16 and 19. At any rate, the total amount of funds spent per unit, whether in leveraging bank loan or in direct assistance, can have a significant effect on the total number of units that can be rehabilitated.

### 3. Estimating the Amount of Grant Funds That Can be Obtained:

Another important factor in determining the scope of your program (number of units to be rehabilitated) is anticipating the amount of funding you can reasonably expect to obtain. After a cost per unit is reasonably estimated, the community should assess and research all the funding sources currently being successfully used in Montana (briefly described in Part IV). Competition is intense for these funds. A problem in trying to estimate the level of funding available for your program is the varying application cycles and different application criteria and allowable uses for the different programs. It is risky to assume that all the funding applied for will be obtained on the first try. Some of the funding agencies will tentatively award funding, contingent upon the applicant receiving the other funding outlined in their budget. Therefore, if one application for funds that contribute an important part of the proposal is unsuccessful, the entire program could fall through. However, CDBG and HOME projects usually require two years to complete after funding; HPG and FHLB applications can be submitted annually; and HRDC and local bank funds are ongoing; so it is usually possible to put all the funding together before the 24 month grant period expires. The funding strategy is the most complex part of your program, and obviously extremely important.

### B. WHAT TYPES OF ASSISTANCE SHOULD WE PROVIDE?

Housing rehabilitation projects that have been funded by the DOC in the last 10 years have proposed programs that covered a full range of financing options. In one program, anyone who qualified under low and moderate income guidelines was awarded a deferred loan that was forgiven within five years. Another program used its entire CDBG allocation for interest subsidy, and all assistance was in the form of loans from a local bank, with varying fixed interest based on repayment ability.

Most of the recent programs considered successful by the communities served have incorporated a variety of the following financing options to make the assistance affordable to a variety of household types. Communities should carefully research the objectives of the funding sources they plan to utilize, and design a program of assistance that fulfills both those objectives and the needs of their community. The funding options might include:

1. Deferred loans (grants secured by liens or trust indentures on the improved property). This type of assistance is often offered to the lowest income applicants who cannot afford any debt payment. The security (lien) is taken to assure that the assisted household gets full benefit of the assistance by living in the unit a minimum number of years before the loan is forgiven and the lien released. The advisory committee or city council has discretion in establishing: a) the income level that triggers the deferment; b) the length

of time the household must occupy the dwelling before the lien is forgiven; c) the maximum amount that will be deferred; d) the priority rehab items that will be completed with deferred loans (e.g. funds could be limited to correcting only basic items that assure the health and safety of the occupants.) Due to FmHA policies, most funding under the FmHA HPG program is utilized under a deferred loan arrangement to benefit very low income households. It usually serves FmHA program policies best to combine the funds with CDBG or HOME funds to reduce the HPG cost per unit.

2. Low-interest direct loans from the City/Town. This is the type of assistance that creates "program income", that can be used to create a long term revolving loan fund for future rehab projects. Again, the committee can set the term (length) of the loan, maximum amounts, and priority rehab items. In addition, they can determine what interest rate is favorable to the repayment ability of the borrower, and can consider a combination of repayment and deferred loans for households marginally able to afford payments. This type of assistance can also be provided to landlords, and must be linked to agreements that the rents be kept affordable to lower income families for an agreed period of time. Please see the regulations for long term management of program income in Appendix E, and in a separate publication by the Department of Commerce.
3. "Leveraged" bank loans using public funds for either interest subsidy or a principal buy-down, to reduce payments to an affordable level for the applicant household. Analysis of the homeowner's repayment ability would be based on the HUD affordability formula (no more than 30% of gross income for principal, interest, taxes, insurance) or in the case of a landlord, on an analysis of his or her cash flow statement and Fair Market Rent considerations. (See the discussion on structuring this funding on Page 16) Again, the type of assistance offered an applicant should be contingent upon long term affordability of the housing after the rehabilitation is completed.

The examples shown in (1) through (3) above are the most common and the simplest to initiate, and are a good strategy to use in a new program, as long as they address the identified needs of the community. Much detailed "how-to" information is available on these financing options from the Montana Department of Commerce and communities who have been through the program.



### C. BUDGET: HOW MUCH WILL THE PROGRAM COST?

At some point during this process, the community leaders have probably made a decision on whether or not to retain professional help for program design, grantwriting and program administration. A person who has been through the process can be extremely helpful in developing reasonable cost projections. It is advisable to develop the budget as soon as project boundaries and the level and scope of rehabilitation are established, to examine how realistic the objectives and projected costs and funding of the project are, and to make adjustments to the project design accordingly. It is best not to decide all the design issues before examining the specifics of the financing plan and the procedures for administering the program. There may be room to make adjustments, depending on the potential involvement of lenders, contractors, and other private sector participants in the process. Their participation may be more forthcoming if they have been a part of the overall design process.

#### 1. Construction Activities:

Several basic rules of thumb should be employed in planning a construction or "Activity" budget:

CDBG grant awards are not made on the basis of the size of the request. A small request (for a few units) will not necessarily compete better. Since the entire process is extremely complex and costly, it is expected that communities will request the maximum funding (\$400,000) and increase the scope and impact of their overall program to that level.

FmHA will not award more than 50% of available HPG funds to any one entity, unless applications are inadequate to award all available funds. This means an application should not exceed approximately \$90,000 (50% of the annual allocation). FmHA will attempt to obtain additional funds for worthy applications, but even then only about three awards are made each year, out of nine or ten applications.

In-kind and donated services and materials should be given a realistic value and included in the budget, but clearly identified as non-cash contributions.

Inspection and specification writing are considered "activity" or non-administrative costs by all financing sources. These services can be contracted or performed by a city employee. Inspection is traditionally supplied by the program at no cost to the homeowner, and is not added to the homeowner loan.

## 2. Administrative Activities:



Administration of a housing rehabilitation program can be extremely complex and time consuming because of lengthy and far-reaching federal requirements in every facet of the process. It would be a serious mistake to underestimate the cost of this part of the program.

There are also several basic rules that will apply to administration budgets:

CDBG allows up to 18% of its grant award (maximum grant of \$400,000) to be used for administration. **Note: CDBG administrative funds cannot be increased after the grant contract is signed. It is imperative to realistically assess costs, and allow an adequate amount in the budget to administer your project.** If budgeted administrative funds are not expended, they can be transferred to the construction or inspection budget to close out the project.

FmHA allows up to 20% of its HPG grant award to be used for administration. However, proposals that include 20% for administration won't compete well. HPG funds are usually combined with other funds to increase rehab level or impact, so applicants usually expend 15% or less of the grant award for administration. This could be added to the CDBG administrative budget if both programs were used.

The HOME program allows 8% of its grant award to be used for administration. Unless the HOME funds are linked with other programs with administration allowances, it is very difficult to execute all the compliances required with the available funds.

Local bank funds used for construction will require similar administrative duties as the federal funds, but do not carry any administrative allowance for federal and state compliances.

A portion of Federal Home Loan Bank of Seattle's Affordable Housing funds can be used for limited administrative costs, if justified. (See Page 19 for program description.)



New program staff frequently overestimate the scope of their project and underestimate the cost and complexity of the administrative and implementation requirements. Careful planning and foresight are essential. Several samples of budgets developed for recently funded, multi-source project are included in Appendix G.



#### IV. FUNDING: Where and how do we get the money?

##### A. PLANNING AND PREDEVELOPMENT FUNDS:

One of the biggest problems a small community will have in launching a new program is finding funds to develop the surveys, needs assessments, long range plans necessary to obtain grant funding from federal and state agencies. **These up-front planning and preparation costs are not reimbursable from grant awards, so the community must find other sources of funds.** This is especially important considering the intense competition for funding. Many communities submit requests more than once before finally receiving their first funding allocation.

Unless local expertise is available on a volunteer basis, a community should plan to expend between 2% and 5% of the total project funding for the planning and preparation of a housing rehabilitation program. The first effort will be more expensive than succeeding grants, because all community assessment and data analysis will have to be done. If the initial assessment is completed properly, subsequent funding applications would only require updating the plan to reflect progress and changing conditions. Costs will also vary depending upon the scope of the program developed. Administrative



costs for small programs are more costly per unit than large programs because the same prerequisites and requirements must be fulfilled. A time and cost analysis explaining the process and services available from housing professionals is included in Appendix C.

A few communities have planning departments that are funded by local mill levies and/or a small allocation (approximately \$2,500) from State Coal Tax revenues. Usually these departments have the staff capacity to conduct needs assessments and compile grant applications. The State funds might be available to contract for needs assessment and grant writing in counties where there is no planning board or staff.

Likewise, a few communities have active economic development organizations or Chambers of Commerce who perform such activities. These organizations might receive public funding or donations from the businesses they serve, and could contribute staff and office time. In recent years, some of the Human Resource Development Councils in Montana have become involved in community development and housing issues, and have teamed up with city and county governments to develop housing improvement and development programs. Because they receive regular funding from the U.S. Department of Health and Human Services, they can relieve the local government of some of the planning costs by supplying staff time, supplies and equipment.



Several private sources of planning funds are available. Most banks in Montana are becoming much more attentive to their responsibilities under the Community Reinvestment Act (CRA). Consequently, many of the major banks have organized foundations that routinely grant funds to worthy local projects, especially those that have the potential for attracting investment or outside funding to the community (including federally assisted projects.) Communities should contact the CRA officer in their local bank to obtain information about banking foundations and community reinvestment activities.

The Federal Home Loan Bank of Seattle has a "challenge fund" available by competitive application to its borrowers (who are other banks located in nine states). These funds are available through FHLB and your local bank for developing a housing plan and rehabilitating affordable housing. If your project is funded for construction by FHLB, the challenge funds must be repaid as part of the project. Information on this source is on page 19, and in Appendix D.

If a community has had a CDBG or other program in the past that produced long term income, they may use part of that income for grant writing and other planning for future projects. Therefore, when planning a long range, comprehensive program for housing improvements, a community can include future needs for professional grant writing and technical assistance when developing the plan for "program income" required by the funding sources. See more on Program Income Requirements in Appendix E and in a separate publication from the Department of Commerce.

## B. IMPLEMENTATION FUNDS:

After you have completed the activities described in Parts II and III, you are ready to approach the funding agencies and institutions with the results of your hard work. Unless you retained a professional at the very beginning of your process, you may now have to make a determination whether someone in your community has the capacity to compile the funding applications necessary to compete successfully.

In the last five years in Montana, it has become nearly impossible to fund a housing rehabilitation program by using a single funding source. Although such a proposal is eligible for funding from all sources, in practice only the highly "leveraged" projects are successful in the competition. The maximum amount available for funding through the CDBG program in any funding cycle is \$400,000, but the total budget of a rehabilitation program will approach or even exceed \$1 million for a two-year project. This is accomplished by using several funding sources, sometimes as many as seven or eight.



"Leveraging" has been discussed previously (Pages 6, 9 and 11) Leveraging could be described as "mix and match." Funds from different agencies and sources are mixed to increase impact. Or limited public funds are used in innovative ways to encourage private investment, by reducing or sharing risk by lenders. Some leveraged funds qualify as the required matching funds (for example, the HOME program), some do not. Careful research into the regulations for each program will help in developing leveraging strategies for the maximum benefit to the program and the homeowners.

Designing innovative, comprehensive programs to produce new and upgraded housing is part of developing a successful housing program. Although housing rehabilitation may emerge as the highest need in the community, it may be possible to address more than one element of local housing needs (like new construction or conversion of buildings) by examining the focus of available programs and funding agencies and developing a proposal that will utilize several sources.

A brief description of some of the most frequently used funding sources follows this part of the handbook, and is also contained in Part I of the Housing Rehabilitation Program Planning and Operations Manual prepared by Strategic Planning Services for the Department of Commerce. The community or its consultant will need to be or become familiar with these programs to determine those most appropriate and accessible for the activities being proposed.

### C. FUNDING SOURCES FOR HOUSING REHABILITATION:

Program Descriptions, Contact Persons, Addresses and Phone Numbers:

#### Community Development Block Grants (CDBG):

A HUD funded program that makes grants to state government, which in turn passes funds to local governments through a competitive application process. This source usually distributes around \$1.5 million annually for housing projects, in amounts up to the maximum of \$400,000 per project. No projects proposing to use CDBG alone have been awarded funding since 1984. The CDBG program allows the greatest amount of flexibility in developing leveraging techniques.

Address: Montana Department of Commerce, CDBG Program,  
1424 9th Avenue, Capitol Station, Helena, MT 59620  
Contact: Gus Byrom, Program Manager  
Telephone: (406)444-2488

#### HOME Investment Partnership Program (HOME):

A federal program, first funded in 1992, for the purpose of helping local governments and certified non-profit organizations provide affordable housing assistance to low and very low income families. In Montana, approximately \$3.5 million is awarded annually by competitive process. Matching funds are required in amounts that vary from year to year, but usually do not exceed 25% of the HOME funds requested (for rehabilitation projects). Eligibility of matching sources is extremely restrictive. The HOME program also requires long-term monitoring to assure that the assisted units remain affordable to low income families. All HOME funds must be used to assist low or very low income households.

HOME funds may be used for a wide variety of housing assistance, including rent assistance for families unable to afford the rapidly escalating rents in Montana. Such proposals can be effectively combined with CDBG to maximize impact on locally identified housing needs.

Address: Montana Department of Commerce, HOME Program  
1424 9th Avenue, Capitol Station, Helena, MT 59620  
Contact: Dave Parker, Program Manager  
Telephone: (406)444-0092

### Farmers Home Administration Housing Preservation Grants (FmHA HPG):

All communities in Montana with populations of less than 10,000 are eligible to apply for and administer HPG funds. The agency accepts applications on a competitive basis for an annual allocation of around \$190,000. The agency is usually able to obtain additional funding for worthy applications that exceed the base allocation. Although the guidelines issued by the District FmHA offices do not require it, successful applications generally propose using HPG funds in concert with other programs, to benefit the lowest income households in a community. FmHA usually funds three or four projects a year, at about \$75,000 each, from the original allocation and additional funds for worthy applications.

Address: Office of Rural Housing  
900 Technology Boulevard, Bozeman, MT 59715  
Contact: (Referred to the Appropriate District Office)  
Telephone: (406)585-2515

### Human Resources Development Council (HRDC):

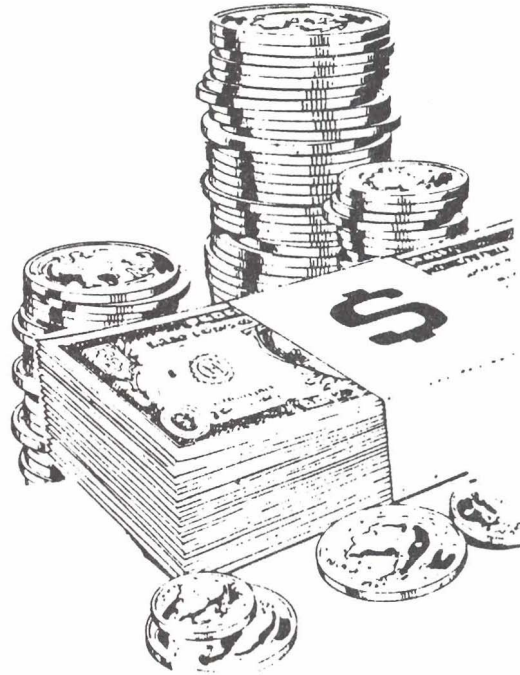
The HRDC organizations serve every area of the state, and administer a number of programs to assist housing needs of very low income households. Some of the programs to very low income households traditionally handled by the HRDC's are: Section 8 rent assistance (payments of part or all of monthly rent), low income energy assistance program (LIEAP) (payment of part or all of heat bills), weatherization funds (insulation, storm doors and windows, weather-stripping, etc.), homeless shelter, and transitional housing for homeless. A few of the HRDC groups are becoming active in the construction of affordable housing, especially rental units and homeless shelters.

HRDC's funds, services, and activities can be effectively linked with rehabilitation efforts to maximize the benefits and impacts of a program. Without exception, the funding level is low and waiting lists are long and restrictive. Contact with the individual HRDC organization would establish the feasibility of help from this source. District HRDC organizations are listed in local telephone directories.



### Federal Home Loan Bank of Seattle:

The FHLB is a private wholesale bank serving other banks in eight western states and the territory of Guam. Consequently, a local bank who is a client of FHLB must be involved in a housing rehabilitation program in order to access this source (a list of Montana clients and contact people is included in Appendix D). For 1994, FHLB has over \$10 million in grants available by competitive application. In addition, nearly \$300 million is available in loans that may be combined with the grant funds to produce affordable financing for rehabilitation and home ownership.



A "Challenge Fund" recoverable grant of \$10,000 or less is available to help with planning and predevelopment costs. FHLB has over \$300,000 in challenge funds available for 1994.

This program is extremely flexible and well-funded. However, the local bank must apply for and disburse all funds, and must assume the long term responsibility of assuring continued affordability of the assisted housing units. Therefore, a secure partnership must exist between the bank and the local government. A list of Montana banks who are clients of FHLB is in Appendix D.

Address:       Affordable Housing Program  
                  1501 Fourth Avenue  
                  Seattle, WA. 98101-1693  
Contact:       Robin Hyerstay, Administrator  
Telephone:     (206)340-8737

### Local Bank Funding:

Since 1985, partnerships between local government and community banking institutions have been an integral part of housing rehabilitation. In most cases, the local rehabilitation program uses CDBG funds to pay interest on bank loans up-front, reducing the rate to the borrower, and providing more construction money than would be available through a direct loan from the program. The plan is attractive to the banker, since the bank can reinvest the interest subsidy and increase the long term yield to off-set these high risk loans.

There are a number of concessions that can be obtained through negotiations with the bank. Because of the increased long term yield, banks can lower the interest rate, requiring less buy-down from program funds. Some banks allow the program to reduce the rate by buying "points." Other banks will arrange to hold the interest subsidy in an interest-earning account, and refund part of the funds to the city if the loan is prepaid. Some banks will also defer or waive loan and escrow fees, appraisals and title insurance in order to lower costs to borrowers and help fulfill Community Reinvestment Act requirements.

There is no absolute rule on how the CDBG funds should be used to leverage the bank funds, nor on the ratio of private to public funds. Banks have considerable flexibility to develop favorable arrangements with the city. The agreement results from negotiations between the city and the bank.

#### Past Program Income:

The program designer could use past program income to add impact to the project. The MDOC requires that income from CDBG grants (interest, principal and repayments on rehabilitation loans and loans to businesses for economic development, or fees recovered from public facilities projects) be used for projects eligible for CDBG funding; these funds must continue to benefit low and moderate income families. Therefore, any of this program income the community might have available should be included in the budget for a new project. A portion of these funds can be used for administration.

The program design should include a calculation of program income that will be earned during the two year term of the grant program, from loans on projects completed early in the program. These earnings could be fairly substantial (\$5,000 to \$10,000.) Again, this can help assure the success of the program. A summary of the rules for management of program income are in Appendix E, and the Department of Commerce can provide a publication with detailed rules for program income management.

#### IRS Low Income tax credits:

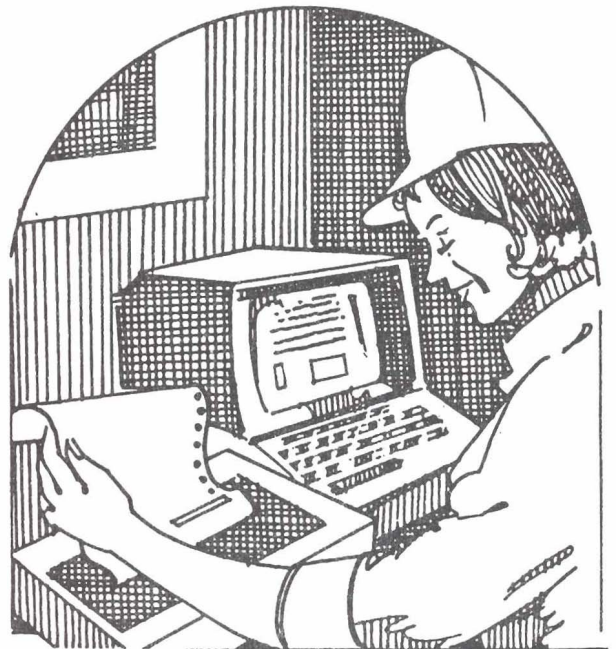
The 1993 federal budget reinstated tax credits for investors in low income housing. Private investors who pay for substantial rehabilitation of existing, or new construction of rental units that are permanently held for very low income households can receive federal income tax credits. Arrangements for the use of tax credits is an effective way to generate private investment from individuals and corporations needing the tax credits.

The low-income tax credit process is complicated, and restrictions cover the entire period of the credit (10 years). Utilizing this source would require enlisting the aid of a knowledgeable professional familiar with the process. A brief description of the program and a list of projects containing 229 single and multifamily units in Montana that have been rehabilitated or acquired and rehabilitated through the utilization of tax credits and other sources of funds since 1987 is included in Appendix F.

Address: Montana Board of Housing  
2001 11th Avenue  
Helena, MT 59620  
Contact: Maureen Rude  
Telephone: (406)444-3040

#### Housing Information Clearinghouse:

The Montana Department of Commerce, Housing Assistance Bureau has a database retrieval service, a computerized database of information that is updated on an ongoing basis. It consists of two separate information components: 1) Housing Programs and Funding Sources; and 2) Housing Facilities and Services related to Housing in Montana. Individuals or organizations interested in locating funding sources, housing, or housing-related services geared to a targeted population may request a database search using specific "key words" (e.g. elderly, homeless, physically disabled). An individual report is printed for each person for the funding or service agency, including address and phone number; information regarding eligible applicants and deadline dates; and a short description of program activities or services.



Address: Montana Department of Commerce  
CTAP Program  
1424 9th Avenue  
Helena, MT 59620  
Contact: Robb McCracken  
Telephone: (406)444-4479